The Consequences of Social Security Privatization

Social Security has been in the forefront of the news lately, with President Bush claiming a mandate to privatize the system. What has been missing from many of those news reports has been the impact privatization will have on Social Security and the overall economy.

Make no mistake about it: privatizing Social Security will drain trillions of dollars from the Trust Funds, force cuts in benefits for current and future beneficiaries, and increase our already record-high deficits.

The President suggested that the plan put forth in 2001 by his hand-picked Social Security commission might be a "good blueprint" for reform. But here's what is involved in the main plan developed by his commission:

The plan would divert one-third of a worker's Social Security contributions to private accounts, cut Social Security benefits for all future beneficiaries (whether or not they have an account), with additional cuts for those who sign up for an account.

Here are the specific effects of the commission's plan:

- **$2.2 trillion is drained from the Trust Funds in just the next 10 years**. Described as "transition costs," proponents fail to mention that the transition lasts for half a century. $2.2 trillion is drained from the Trust Funds in just the first decade of the plan's operation -- but the losses continue forever.

- **Benefits to current Social Security recipients could NOT be paid in full.** Diverting one-third of workers' Social Security contributions into private account blows a hole in the Trust Funds. This directly threatens our ability to pay current retirees.

- **Financial condition of Social Security is WORSENED, not improved.** The Trust Fund reserves will be exhausted by 2021 – two decades sooner than projected under current law .

- **National debt would explode.** The plan relies heavily on deficit-financing to make up the loss to the Trust Funds. The President's own 2004 *Economic Report* forecast that, under the commission plan, the debt will be higher for 60 years. At its peak, this additional debt caused by privatization would equal 24 percent of GDP.

- **Benefits will be cut for everyone – <u>whether or not they have an account</u>.** This plan changes how benefits are calculated for future beneficiaries. Benefits will be cut by up to 46 percent over the 75-year forecasting period – *even if you opt to stay in traditional Social Security*.

- **Benefits will be cut for disabled workers and survivors.** These same benefit cuts are applied to disability and survivors benefits.

- **Workers will not receive both their full account and their full Social Security benefit**. Those who have an account will face an additional reduction in their Social Security benefit, <u>on top of</u> the one that applies to all workers. This extra cut will reduce their Social Security benefits by an additional 23 percent over the 75-year forecasting period.

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